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Message Text

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PAGE 01 OTTAWA 02998 222211Z

11
ACTION EUR-12

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E.O. 11652: N/A
TAGS: ECON, CA
SUBJ: CANADIAN BUSINESSMEN OPENLY CRITICIZE GOC ANTI-INFLATION PROGRAM

BEGIN UNCLASSIFIED

1. SUMMARY. SINCE BEGINNING OF GOC ANTI-INFLATION PROGRAM LAST FALL, CANADIAN BUSINESS LEADERS, UNLIKE ORGANIZED LABOR, HAVE GIVEN GRUDGING SUPPORT. NOW, HOWEVER, MORE AND MORE BUSINESS SECTORS ARE OPENLY CRITICAL OF PROGRAM FOLLOWING ANNOUNCEMENT IN MAY BY FINMIN MACDONALD THAT PROFIT RULES WOULD BE TIGHTENED. TWO LARGE CANADIAN COMPANIES HAVE TAKEN FULL-PAGE ADS IN NEWSPAPERS WITH "OPEN LETTER" TO MACDONALD SEEKING MODIFICATION OF A.I.B. REGULATIONS, AND CANADIAN CHAMBER OF COMMERCE HAS THREATENED WITHDRAW ITS SUPPORT. LATEST BUSINESS GROUP TO ADD ITS VOICE TO CRITICS OF PROGRAM WAS INSTITUTE OF CHARTERED ACCOUNTANTS. END SUMMARY

2. WHEN GOC ANNOUNCED ITS ANTI-INFLATION PROGRAM IN OCTOBER 1975, MOST BUSINESS GROUPS IN CANADA ISSUED STATEMENTS SAYING THAT ALTHOUGH THEY WERE OPPOSED TO
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PAGE 02 OTTAWA 02998 222211Z

CONTROLS, THEY WOULD SUPPORT GOC EFFORTS TO BRING

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

DOWN RATE OF INFLATION. SIMILAR STATEMENTS OF QUALIFIED SUPPORT COME FROM INDIVIDUAL COMPANY EXECUTIVES WHO CLAIMED GOC "HAD TO DO SOMETHING" TO CURB RISING WAGE COSTS AND PRICES AND WHO SAID THEY WOULD TRY ACCOMMODATE TO GOC POLICIES. TOTAL OPPOSITION TO PROGRAM CAME FROM ORGANIZED LABOR, SOME FINANCIAL ANALYSTS AND ACADEMICS, AND SEVERAL OPPOSITION POLITICIANS.

3. IN MAY BUDGET, FINMIN MACDONALD ANNOUNCED THAT PROFIT RESTRICTIONS FOR COMPANIES UNDER CONTROLS WOULD BE TIGHTENED (IN GENERAL, COMPANIES WOULD BE LIMITED TO 85 PERCENT AVERAGE PROFIT OF PREVIOUS FIVE YEARS RATHER THAN 95 PERCENT ORIGINALLY ANNOUNCED, BUT COMPANIES COULD CLAIM VARIOUS PRODUCTIVITY AND OTHER BENEFIT CREDITS.). REGULATIONS TO THAT EFFECT HAVE BEEN POURING OUT OF ANTI-INFLATION BOARD (A.I.B) SINCE.

4. NEW REGULATIONS ARE EXTREMELY COMPLEX COVERING REMOVAL OF "CARRY FORWARD OF DEFICIENCIES OF EXCESS REVENUE," REDUCTION OF NET MARGINS, AND CREDITS FOR PRODUCTIVITY GAINS AND PRICE RESTRAINT. COMPLEXITY OF REGULATIONS UNDERSCORED BY RECENT BULLETIN FROM PRINCE WATERHOUSE WHICH WARNED ITS DISTRIBUTOR CLIENTS NOT TO INCREASE ANY PRICES UNTIL REGULATIONS WERE CLARIFIED.

5. IN SECOND WEEK IN JULY, SEVERAL NEWSPAPERS CARRIED FULL-PAGE "OPEN LETTER" TO FINMIN MACDONALD FROM PAUL PARE, PRESIDENT OF IMASCO LTD., HIGHLY CRITICAL OF NEW REGULATIONS AND ENDING WITH STATEMENT THAT "PROFIT CONTROLS LEAD TO PARALYSIS INSTEAD OF GROWTH, TO INEFFICIENCY INSTEAD OF PRODUCTIVITY AND TO THE FLIGHT OF CAPITAL." ACCORDING TO PARE, IMASCO, WHICH IS LARGEST CIARETTE AND CIGAR MANUFACTURING COMPANY IN CANADA, HAS ALREADY PASSED UP ONE NEW BUSINESS OPPORTUNITY IN CANADA BECAUSE OF CONTROLS AND HAS DEFERRED ANOTHER INVESTMENT OF $750,000 UNTIL "WE CAN SEE THE EFFECT OF CONTROLS MORE CLEARLY."

6. NEWSPAPERS HAVE REPORTED THAT AT RECENT CANADIAN
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CHAMBER OF COMMERCE MEETING IN MONTREAL, THREATS OF WITHDRAWAL OF SUPPORT FOR GOC PROGRAM WERE MADE BY CHAMBER OFFICIALS, WHO ALSO DESIRED CHANGE IN A.I.B. REGULATIONS RELATING TO PROFITS DURING BASE PERIOD.

7. ON JULY 20, FULL-PAGE "OPEN LETTER" TO FINMIN MACDONALD AGAIN APPEARED IN LEADING NEWSPAPERS SIGNED BY ALEX D. HAMILTON, PRESIDENT OF DOMTAR LTD. HAMILTON

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

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CONCURRED WITH THE PARE LETTER AND SAID THAT NEW REGULATIONS WERE "UNREALISTIC," "UNFAIR" AND "INCREDIBLY COMPLEX." ACCORDING TO HAMILTON, DOMTAR, A LEADING CANADIAN PAPER PRODUCTS AND DIVERSIFIED COMPANY, HAS INVESTED ABOUT $75 MILLION PER YEAR FOR CAPITAL IMPROVEMENTS. HE STATED THAT COMPANY'S CALCULATIONS OF IMPACT OF REVISED REGULATIONS WOULD REDUCE COMPANY'S AVAILABLE INVESTMENT MONEY BY $30 MILLION, WHICH IS "FURTHER REDUCTION OF SOME 35 PERCENT OF WHAT WE HAD PLANNED TO SPEND."

8. ON JULY 21 LOCAL MEDIA CARRIED STORY THAT CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS HAD SENT LETTER TO MACDONALL CLAIMING THAT REVISED AIB GUADELINES COULD POSTPONE INVESTMENTS, INCREASE UNEMPLOYMENT AND DELAY ECONOMIC RECOVERY. AS QUOTED IN NEWSPAPERS, LETTER TOLD MACDONALD THAT PROPOSED REDUCTIONS IN NET PROFIT MARGINS FROM 95 PERCENT TO 85 PERCENT "WILL SERIOUSLY JEOPARDIZE THE INTERNAL CASH FLOWS NECESSARY TO FINANCE ONGOING OPERATIONS AND CAPITAL INVESTMENTS."

9. INITIAL REACTION BY A.I.B. BOARD MEMBERS TO FIRST OPEN LETTER AND TO CHAMBER OF COMMERCE THREAT WAS REPORTED IN PRESS TO BE: "WE MUST BE DOING SOMETHING RIGHT SINCE BOTH LABOR AND BUSINESS ARE COMPLAINING."

10. BEGIN LIMITED OFFICIAL USE. COMMENT. CRITICISM OF GOC ANTI-INFLATION PROGRAMS BY BUSINESS APPEARS TO BE BUILDING AND ALTHOUGH HAS NOT REACHED OUTRIGHT OPPOSITION, AS IN CASE OF ORGANIZED LABOR, SHOULD BE OF CONCERN TO GOC.

11. IMASCO PRESIDENT'S EXAMPLES OF DEFERRED INVESTMENT
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PAGE 04 OTTAWA 02998 222211Z

DECISIONS BY BUSINESS WERE ECHOED IN FINANCIAL TIMES SURVEY PUBLISHED JUNE 19 WHICH SHOWED ALMOST 50 PERCENT OF BUSINESS READERS SURVEYED DID NOT THINK NOW WAS GOOD TIME FOR BUSINESS TO EXPAND. JUNE SURVEY ALSO SHOWED DECIDED PESSIMISM ABOUT CANADIAN ECONOMY WITH 63 PERCENT OF RESPONDENTS BELIEVING THAT ECONOMY IS NOT STRONGER NOW THAN IT WAS SIX MONTHS AGO.

12. 1976 FIRST QUARTER FIGURES SHOWED DROP IN REAL FIXED CAPITAL INVESTMENT FROMM FOURTH QUARTER OF 1975. IF BUSINESS PESSIMISM IS AS BAD AS TIMES SURVEY INDICATES AND IF BUSINESS GROWING DISSATISFACTIONNWITH GOC CONTROLS PROGRAM TAKES FORM OF MORE DEFERRED INVESTMENT, WE CAN EXPECT FURTHER DECLINES IN REAL FIXED CAPITAL INVESTMENT FOR THE YEAR. THIS RAISES TWO INTERESTING

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POSSIBILITIES: 1) THE DECLINE WILL SLOW CANADA'S ECONOMIC RECOVERY AND/OR 2) EXPECTED RECOVERIES IN CANADA'S CHIEF TRADING PARTNERS, NOTABLY THE U.S., COULD PUT STRAIN ON CANADA'S PRODUCTIVE CAPACITY AND AS IN INFLATIONARY YEARS OF 1973 AND 1974, DEMAND PRESSURE FROM OUTSIDE CANADA COULD PUSH UP INFLATION RATES HERE AGAIN. IN ITS ANNUAL REVIEW FOR 1974, FINANCE DEPARTMENT PUT BLAME FOR INFLATION FROM EARLY 1972 TO MID-1974 IN CANADA ON DEMAND-PULL EXTERNAL FACTORS AND ON HIGH LEVELS OF CAPACITY UTILIZATION WITHIN CANADA. IF ANALYSIS IS CORRECT, GOC ANTI-INFALTV CURTAIL FIXED CAPITAL
EXPANSION COULD BE GENESIS OF MORE INFLATION IN YEARS AHEAD.
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Margaret P. Grafeld
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